

Message Text

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ACTION SS-25

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P 050537Z OCT 74

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC PRIORITY 2754

INFO USLO PEKING

C O N F I D E N T I A L HONG KONG 12007

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EXDIS

E.O. 11652: GDS

TAGS: ENRG ETRD CH

SUBJECT: ESSO INVITED TO BID ON PRC OIL

SUMMARY: WE HAVE CLASSIFIED THIS MESSAGE EXDIS BECAUSE OF EXTREME COMMERCIAL SENSITIVITY. PRC'S INVITATION TO ESSO TO BID ON PRC OIL WILL BE DISCUSSED AT CANTON FAIR THIS WEEK END. CONSUMMATION OF LARGE OIL DEAL WITH ESSO COULD HAVE SIGNIFICANT POLITICAL AND ECONOMIC IMPLICATIONS.

1. ESSO'S MARKETING MANAGER HERE, MEL SEARLS, RECEIVED SUBJECT INVITATION LAST WEEK FROM CHINA NATIONAL CHEMICALS IMPORT AND EXPORT CORPORATION AND WILL PRESENT ESSO'S RESPONSE TO THEM THIS WEEK END AT THE CANTON FAIR. (SEARLS HAS GIVEN CONGENOFF BASIC INFORMATION ON PROMISE OF UTMOST SECRECY ON ALL ASPECTS OF TRANSACTION INCLUDING PARTIES CONCERNED. THEREFORE, THERE SHOULD BE NO DISCUSSION EVEN WITH ESSO.) DURING VARIOUS VISITS TO CANTON AND PEKING, SEARLS HAS DEVELOPED CLOSE WORKING RELATIONSHIPS WITH PRC OIL OFFICIALS. (EARLIER HE NEGOTIATED ESSO'S WORLD-WIDE BUNKERING SERVICE FOR PRC SHIPS IN RETURN FOR PRC OIL DELIVERED IN HONG KONG.) HE ASSUMES THAT SUBJECT INVITATION STEMS FROM HIS TALKS WITH CHEMICAL TRADE CORPORATION LAST SPRING WHEN HE OUTLINED ESSO'S INTEREST IN ACQUIRING PRC OIL EITHER BY DIRECT PURCHASE

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OR VIA AN OIL SHARING AGREEMENT IN RETURN FOR OFF-SHORE

EXPLORATION SERVICES.

2. SEARLS IS NOT YET AWARE OF POTENTIAL OIL SALES VOLUME, DELIVERY, OR OTHER CONDITIONS CONTEMPLATED BY PRC. DELIVERIES MOST LIKELY WILL NOT START BEFORE MID-1975. BY THEN, PRC SHOULD HAVE SIGNIFICANT EXPORT POTENTIALS NOT YET COMMITTED (SEE HK 11763). THE FACT THAT PRC SALES OFFER IS STILL IN GENERAL TERMS HELPS ESSO'S NEGOTIATING POSTURE AT THIS MOMENT WHEN OIL COMPANIES ARE FACED WITH GROWING SURPLUSES NECESSITATING HEAVY STORAGE AND FINANCING COSTS. HOWEVER, ESSO DOES NOT WISH TO PASS UP OPPORTUNITY TO COMMENCE LONG-TERM SUPPLY RELATIONSHIP WITH PRC. (NEITHER SEARLS NOR WE ARE AWARE OF PRC MAKING SIMILAR APPROACHES TO OTHER PRIVATE OIL COMPANIES.) THUS, ALTHOUGH NOT DIVULGING KIND OF SPECIFIC TERMS ESSO PLANS OFFER PRC, SEARLS CLEARLY IMPLIES THAT SOME FORM OF POSITIVE RESPONSE WILL BE FORTHCOMING. HE PLANS REVIEW SPECIFICS OF HIS RESPONSE WITH ESSO'S REGIONAL PROCUREMENT OFFICE IN TOKYO NOVEMBER 6-7 AND THEN DEPART FROM HONG KONG TO CANTON ON NOVEMBER 8.

3. COMMENT: MANY POTENTIALLY SIGNIFICANT IMPLICATIONS CAN BE READ INTO THIS PRC OFFER TO SELL OIL TO ESSO. IT CERTAINLY CONFIRMS EARLIER ESTIMATES OF CHINA'S GROWING EXPORT POTENTIAL FOR 1975 AND BEYOND (SEE HONG KONG 11763) AND IMPLIES THAT ANY LARGE IMPORT PLANS OF THE PRC NEED NOT NECESSARILY SUFFER FROM ANY FALL IN TRADITIONAL EXPORTS. MORE SIGNIFICANTLY FROM US STANDPOINT, CONSUMMATION OF A SIGNIFICANT OIL DEAL WITH ESSO COULD HAVE IMPORTANT POLITICAL AS WELL AS ECONOMIC IMPLICATIONS FOR PRC-US BILATERAL RELATIONS. AN ALTERNATIVE SOURCE FOR INCREASING VOLUMES OF OIL WOULD GREATLY BENEFIT THE WESTERN WORLD'S POSITION VIS-A-VIS OPEC COUNTRIES. FURTHERMORE, WITH CHINA USING HER OIL EXPORTS FOR BROAD POLITICAL AND ECONOMIC PURPOSES, MUCH MORE CAN AND WILL BE READ INTO THE PRC DEALING WITH A PRIVATE US COMPANY LIKE ESSO.

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